



City of Hazleton

OFFICE OF THE MAYOR

LOUIS J. BARLETTA
Mayor

Good Afternoon. The following statements and responses were prepared by the Administration of the City of Hazleton, which thanks you for this opportunity to address the Committee regarding Senate Bill 961.

This Bill is intended to accomplish two important goals by coordinating the provisions of the Local Tax Enabling Act and Act 205 of 1984, which deals with, among other things, emergency tax funding for municipalities with financially distressed pension systems. The two goals are: 1) to continue the protections contained in Act 205 to ensure that special tax funds are used only for the purpose of providing aid to municipalities with financially distressed pension systems, and 2) to make funds available for certain types of municipalities to fund post retirement coverages for their employees in certain, narrowly-defined circumstances.

Senate Bill 961 amends the Local Tax Enabling Act. The Amendment would not affect a municipality's obligation to fund its pension plans, nor would it permit a new source of increased taxation. Instead, Senate Bill 961 would in effect, clarify that Cities of the Third Class to which the Amendment applies¹ were authorized, with Court approval, to use revenues generated under Act 205's special tax authority to pay for post retirement coverages beginning on January 1, 2003, so long as the municipality continued to meet its funding obligations to its pension plans

¹ Senate Bill 961 would apply only to Cities of the Third Class with populations of 22,500 – 23,500 based on the year 2000 federal census.

on an annual basis. Stated more simply, Senate Bill 961 makes clear that certain cities of the third class may shift funds collected through Act 205 to pay for other post retirement coverage obligations, rather than restricting those funds to being deposited into the pension plan.

Senate Bill 961 is drafted with a narrow focus, and while it would apply to any City of the Third Class meeting its criteria, the City of Hazleton has pursued this legislation, in part, because it is involved in litigation with the Department of Auditor General. As benefit costs skyrocketed over the last decade, the post-retirement coverages owed to former employees grew into a crushing weight that threatened to stifle the City's financial recovery efforts. At the same time, the Act 205 Earned Income Tax continued to produce revenues each year that met the City's annual obligation for the pension benefit portion of its retirement coverage obligation. The annual funding obligations for those pension plans, related solely to the pension benefit portion of its overall obligation to fund retirement coverages, had stabilized, but the increase in the Earned Income Tax was absorbing what little extra revenue was available. The taxpayers of Hazleton were stretched to their limit, and their tax money needed to be used appropriately, as well as to its best effect. In 2003, the City of Hazleton began using a fraction of the amount of the Act 205 Earned Income Tax, after satisfying the pension benefit portion of its retirement coverage liability, to defray the portion of that liability associated with post retirement healthcare benefits for retired employees. The pension benefit portion of the retirement coverage liability continued to be satisfied at all times. While the Public Employee Retirement Commission and the Department of the Auditor General have made clear that neither has a problem with Senate Bill 961, in fact both support the legislation, the Department's current interpretation of Act 205 produced an audit finding that the City of Hazleton improperly applied Act 205 funds to post

retirement coverage obligations, other than the pension benefit portion of its obligation, beginning in 2003. The audit finding recommends that the City of Hazleton make restitution of those funds.

Senate Bill 961 therefore represents both a practical solution to a real problem faced by the City of Hazleton, but also a common-sense measure that would make Act 205 more user-friendly by permitting municipalities in real distress to apply relief funds for retirement coverages when and where they are most needed. The current City of Hazleton Administration fought its way back into a preferable economic position by controlling spending, by achieving responsible settlements and cost savings in collective bargaining, and by effective management of its fiscal affairs. In a letter dated September 18, 2002, the Auditor General specifically acknowledged the City of Hazleton's efforts to control its costs and bring its pension plans and labor contracts into compliance with the law. While many hurdles lay ahead, through hard work and careful financial management, the City of Hazleton once again stands on the threshold of a better future. Senate Bill 961 will ensure that the City's residents can realize that future, and on behalf of the City of Hazleton, the Administration asks that you give the bill your full support.

Specific Information Requested by the Committee:

- 1. When was the additional taxing authority under Act 205 implemented? What was the percentage of tax authorized and how much revenue did it generate in the original year?**

The additional authority became effective on January 1, 1989, and the percentage was .15%. The City has so far been unable to identify a reliable budget record from 1989 that indicates the amount of revenue generated by the .15%, but will supplement this answer if that information becomes available.

2. Was the rate of tax ever increased after the original enactment?

Yes. There were several increases to a maximum of .5% in 1993, and there was a subsequent decrease in 1999 to .4%, which is the current rate.

3. When was the first year that revenues from the Act 205 Tax Authorization were used for items that were called into question by the Auditor General's office? For that year, how much revenue was generated by the Act 205 tax levy and how much of that revenue was used for the questionable items cited by the Auditor General?

The first year in which the Auditor General questioned the City's use of Act 205 funds was 2003. In that year total Act 205 revenues were approximately \$1,768, 969.00. From that number the Auditor General questioned the expenditure of approximately \$556,155.00.

4. Did revenues from the Act 205 Tax Authorization replace previous municipal revenues dedicated to the pension plan or did they simply augment the revenues? If they augmented the revenue, were there still general municipal funds being used for pension purposes the year that the Auditor General first cited in his report the questionable items being funded by the special levy?

The Act 205 special tax revenues did not replace general fund money that was dedicated to the pension plans. The Act 205 special tax revenue augmented deposits by the municipality, which, combined, provided adequate funding for the City's pension plans in the year 2003, which was the first year identified in the audit finding.

5. For the last year available:

a) How much revenue was generated by the special levy authorized and adopted under Act 205?

For the year 2007: \$1,742,492.00

b) How much of that revenue was dedicated or needed to offset the cost of the questionable items cited by the Auditor General in his report?

\$523,000.00

c) Were there contributions (tax revenues) from the general municipal funds to the pension funds/ system and how much was that?

The total contributions to the pension fund from all sources combined was \$1,909,303.00 for the year 2007. Of that amount, \$1,219,492.00 was from the special levy authorized and adopted under Act 205.

6. **Have there been additional cost of living adjustments for retirees and/or early retirement incentives offered to employees since the ones that were cited in the Auditor General's reports regardless of how they were paid for?**

No.

7. **Is Hazleton a Home Rule Chartered Municipality? What is the current earned income tax rate in Hazleton; differentiate between act 205 levy and other levys? What is Hazleton's property tax millage rate? Please differentiate between the municipality, school district, and county.**

Hazleton is an Optional Plan B municipality under the Home Rule and Optional Plans Law.

The Earned Income Tax Rate is 1.9%, which breaks down as follows:

1% School District
.4% Act 205
.5% General Fund

The Property Tax Millage rate is:

187.392	School District
94.90	Luzerne County
39.80	City of Hazleton